Toward a Zero-Tax State: The Fiscal Architecture of a Minimal State

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Is a State Without Taxation Possible?

Nearly all modern states are built upon a common assumption: taxation is treated as a necessary condition for state financing. This assumption is so deeply taken for granted that it is rarely questioned at the level of first principles themselves. Yet, from the perspective of classical liberalism—particularly in its Austrian tradition—this premise is theoretically contestable. At the heart of this conventional view lies a fundamental tension: the state claims to protect property rights while simultaneously relying on taxation, which entails the coercive violation of those very rights, to finance itself. This tension is not merely a practical inconsistency; it stems from a deeper theoretical assumption—that the financing of the state must necessarily be based on the compulsory transfer of private resources.

If private property is a natural right, and if production arises from the voluntary actions of individuals, why should the state be funded through the income and assets of its citizens? Is it not conceivable that the state—at least in its minimal form—could operate without taxation, relying instead on sovereign services (such as patent registration) and revenues derived from publicly owned assets (such as oil reserves on publicly owned lands)?

In this article, the minimal state is defined as an institution with only two legitimate functions: the protection of individuals' natural rights and the provision of services that are structurally non-substitutable by the market. Any function beyond this

scope—including redistribution or financing through coercion—is excluded from this definition.

The article argues that taxation is neither an institutional necessity nor an efficient instrument for a minimal state, but rather a deviation from the logic of property rights. In this sense, the state should be understood not as a tax-collecting entity, but as custodian of publicly owned assets and a provider of monopoly services. While not all states can immediately operate without taxation, it is possible to design an institutional architecture in which a minimal state is conceivable without relying on conventional forms of taxation.

In such a model, state revenues must be independent of distortions to market price mechanisms and derived solely from the sovereign position of the state. Only if these revenues are insufficient to cover the minimal costs of the state may it resort to per capita taxation or conventional forms such as consumption or income taxes.

Legitimate Revenue Sources of the State

Legitimate revenue generation by the state, understood as the manager of public assets and the guardian of the legal infrastructure of the market, should satisfy one of the following conditions:

- Provision of sovereign functions that fall exclusively within the competence of the state;
- Leasing out or outsourcing the management of assets held in the public domain;

- Granting rights to use infrastructure in exchange for regulatory fees;
- Collection of those fines and penalties that cannot feasibly be internalized within market mechanisms.

Under such a framework, all payments would be avoidable and individuals would be required to pay only upon actual use of services or resources. Accordingly, state revenues are considered legitimate only when they derive from the leasing of public assets, fees for sovereign services, or the pricing of scarce and non-substitutable resources. Any revenue outside these conditions effectively replicates the logic of taxation.

These revenue sources can be categorized into four domains: territorial, natural, infrastructural, and legal.

- **Territorial and transit-based revenues**, including charges on the transit of goods and energy, port fees, waterway tolls, air passage rights, highways, and road infrastructure.
- **Scarcity-based infrastructural revenues**, such as spectrum allocation, satellite orbits, airport landing and take-off rights—resources that would become dysfunctional or inefficient in the absence of a coordinating state authority.
- **Property rights and sovereign service revenues**, which enable the integration of information systems and judicial adjudication, including land registration, contracts for the transfer of immovable property, intellectual property and patent registration (though the legitimacy of such rights remains contested

among classical liberal scholars), issuance of driving licenses, passports, visas, and border-related services.

- **Judicial and enforcement revenues**, such as court fees, execution of judgments, and institutional arbitration, as well as penalties including traffic violations, with the proviso that fines must not become a permanent source of state financing, as this would otherwise create institutional incentives for expanding infractions or artificially increasing penalties.
- **Natural resource revenues**, derived from resources historically held under state ownership, such as oil and gas, mining, fisheries, rangelands, and groundwater. From a classical liberal standpoint, however, such assets should, at least in the long run, be subject to privatization. Persistent reliance on them would be incompatible with the logic of a minimal state.
- **Geopolitical revenues**, depending on country-specific conditions, including international transit agreements and corridor access arrangements.
- **Public heritage revenues**, such as outsourcing or ticket-based access to historical sites, museums, and national parks.
- **Naming rights revenues for public facilities**, insofar as they do not undermine urban identity —for example, the naming of stations, bridges, and tunnels for relatively long but defined periods.

In the process of price discovery or pricing of services provided by the state, the guiding principle is

competitive pricing, which is to be realized through auction-based mechanisms. Only in cases such as passport issuance—where service provision falls exclusively within the sovereign competence of the state—should prices be administratively set and formally regulated by the government. In all other cases, transparent tendering procedures must be conducted.

In this context, auctions are not merely a pricing instrument, but a mechanism for constraining the administrative power of the state in allocating scarce resources and preventing the formation of institutional rents.

In the absence of taxation, the primary risk is not a shortage of resources but rather the state's incentive to transform revenue-generating assets into mechanisms of self-reinforcing state expansion—through the artificial creation of scarcity, excessive issuance of permits, or exploitation beyond the sustainable capacity of resources.

Accordingly, the central issue is not the design of revenue sources, but the institutional design of constraints on state behavior.

Institutional Reconstruction of the State

To this end, the state must be structured into three mutually independent institutions. This institutional separation is necessary in order to prevent the concentration of fiscal authority across asset definition, revenue extraction, and expenditure allocation within a single body.

- **Public Asset Registry Authority**; which defines and registers transferable public assets.
- **Public Revenue Authority**; which is responsible for collecting state revenues.
- **Public Budget Allocation Authority**; which disburses collected resources to finance other state functions and, under no circumstances, is permitted to generate or collect any additional revenue.

In this way, the state is transformed from an entity based on taxation into an institution that leases public assets and charges fees for the provision of sovereign services in domains where the free market would not operate efficiently. The scope of such a state's intervention in private wealth creation is thereby minimized, allowing individuals greater opportunity to pursue their own substantive preferences.

Under this framework, the central question is no longer how taxation should be levied, nor even what constitutes legitimate taxation. Rather, the fundamental question becomes how a state can exist without taxation and thereby dramatically reduce government predation on its citizens. In other words, the political economy of the state shifts from the "justification of taxation" to the "possibility of designing a minimal state without reliance on taxation"—a shift that requires a rethinking of the traditional formulation of state theory.

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